Communications Workers of America
AFL-CIO, CLC

501 Third Street, N.W.
Washington, D.C. 20001-2797
202/434-1100 Fax 202/434-1279

EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

RECEIVED

JUN 1 8 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 18, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: Ex Parte Notice
CC Docket No. 97-211 (Applications of WorldCom and MCI for Transfer of Control of MCI to WorldCom)

Dear Ms. Salas:

On June 15, 1998, George Kohl, CWA Senior Executive Director, and Debbie Goldman, Research Economist, met with Paul Gallant, Legal Advisor to Commissioner Tristani, to discuss CWA's concerns regarding the proposed WorldCom/MCI merger. Our discussion focused on these two public interest issues related to the merger: 1) MCI's partial divestiture of Internet assets does not resolve the anti-competitive issues raised by this merger; and 2) the fact that the merged entity will not compete for residential consumers in the local exchange market.

The attached hand-outs were used in our discussion. They include a briefing paper on the MCI spin-off; Exhibit 99.3 from WorldCom's Nov. 9, 1997 filing with the SEC; and two charts submitted in our March 20, 1997 Second Reply Comments on the financials of the merger.

In accordance to the Commission's rules, I submit two copies of this notice and the hand-outs.

Sincerely,

Debbie Goldman

Debbie Goldman, Research Economist
Research and Development Department

Enclosure

cc: Paul Gallant

No. of Copies rec'd 0+1
List A B C D E

MCI/WorldCom Merger
Communications Workers of America
Ex Parte Presentation

I. Framework and Legal Standard

- Bell Atlantic/NYNEX Standard: Burden of proof on applicant to demonstrate merger is in public interest

- Public Interest
  -- Enhances competition
  -- Promotes quality, affordable service and network development for <u>all</u> Americans (including residential local exchange market)

II. Taking MCI out of Competition in Local Exchange Residential Market

- MCI/WorldCom provides no concrete evidence of plans in local exchange
  Letter to Chairman Kennard: will compete for residential consumers only "where business opportunities exist."

<u>Evidence that MCI/WorldCom won't build local networks serving residential consumers:</u>

- MCI cancels $2 billion local loop investment after merger announced

- MCI/WorldCom $5.3 billion "synergy" savings in local loop

- Financial imperative of deal: $28.6 billion premium, $7.4 billion debt, 61% assets are "goodwill"--MCI/WorldCom can't afford to invest in low-margin customers

- <u>Impact:</u> MCI/WorldCom end-to-end private network for business customers, arbitrages public subsidies, result: two-tier telecom system

III. Anti-competitive Issues in Internet Backbone Market

- MCI/WorldCom would dominate customer base; market power over interconnection

- MCI's partial divestiture to Cable and Wireless is not enough. Compare:
  1996 UUNet (WorldCom) sale--price/revenue multiple: 11.2
  MCI sale to Cable & Wireless-- price/revenue multiple: 2.8

- Remedy: Complete divestiture of WorldCom's Internet backbone business and its ownership of MAE-East and MAE-West public exchange points

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 9, 1997

WORLDCOM, INC.
(Exact Name of Registrant as Specified in its Charter)

Georgia	0-11258	58-1521612
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification Number)

515 East Amite Street
Jackson, Mississippi 39201-2702
(Address of Principal Executive Office)

Registrant's telephone number, including area code: (601) 360-8600

Exhibit No. 99.3

Analysts' Presentation Given on November 10, 1997

Operating Cost Savings

:TABLE>
:CAPTION>

<S>	Anticipated Annual Savings ($ in billions) 1999 Previous <C>	1999 Revised <C>	2002 Previous <C>	2002 Revised <C>
Core SG&A	$1.0	$1.0	$1.3	$1.3
MCI Local Savings	$0.7	$0.5	$1.5	$1.2
Domestic Line Costs	$0.6	$0.6	$1.3	$1.8
International Line Costs	$0.1	$0.4	$0.3	$1.3
Total	$2.4	$2.5	$4.4	$5.6

/TABLE>

2000 $0.7 2001 $0.9

Sub-Total: $3.3 billion

Presentation contains forward-looking statements.
Actual results may vary.

'AGE> 26
.nancial Highlights

Capital Expenditure Savings

ABLE>
APTION>

;>	Anticipated Annual Savings ($ in billions) 1999 Previous <C>	1999 Revised <C>	2002 Previous <C>	2002 Revised <C>
D./Int'l/Internet	$0.8	$0.9	$1.2	$1.3
cal	$0.7	$0.7	$0.3	$0.3
	--	$0.4	--	$0.4
Total	$1.5	$2.0	$1.5	$2.0

\BLE>

2000 $0.575 2001 $0.450

Sub-total: $2 billion

$5.3 billi

Chart 1.

WorldCom is Paying a $28.6 Billion Premium Price for MCI

WorldCom pays for MCI*		$39.9 billion
MCI book value	-	$11.3 billion
Difference ("Premium")		**$28.6 billion**

*Based on WorldCom stock price of $33.13 per share as of Nov. 7, 1997.

The premium price has actually increased since then because the price of WorldCom stock has increased above the high end of the "collar" set in the merger agreement of $41 per share.

Chart 2.

Goodwill & Intangibles Dominate the New MCI-WorldCom

	G&I as % of Total Assets	Tangible Assets as % of Total Assets
MCI	9.6%	90.4%
Major Telcom Co. Avg	11.1%	88.9%
WorldCom	62.5%	37.5%
New MCI-WorldCom	61.6%	38.4%

Source: WorldCom Joint Proxy Statement/Prospectus, Amendment No. 3 to SEC Form S-4, January 22, 1998.

What Wall Street is Saying about the Merger: Reduced Intra-Industry Competition

"Mergers with MCI and Brooks will reduce, on the margin, the level of intra-industry competition in both the U.S. LD (long distance) and local markets via the reduction in the number of major competitors.

On the local side, completion of these two mergers would mean that MCI's Metro unit, Brooks, and WorldCom's MFS unit would no longer compete with each other. We therefore expect that local pricing will feel slightly less pressure and that significant overlapping expenditures (both capital and marketing) will be eliminated."

-- Merrill Lynch and Company, Feb. 1998.

What WorldCom is Telling the SEC

"The cash flow required to service WorldCom's debt may reduce its ability to fund internal growth, additional acquisitions, and capital improvements."

-- WorldCom SEC Form 10-K (1997), filed March 27, 1998.

Communications Workers of America
AFL-CIO, CLC

501 Third Street, N.W.
Washington, D.C. 20001-2797
202/434-1100

The MCI Proposal to Sell Its Internet Operations to Cable And Wireless is Only a Partial Divestiture

On May 28, 1998, in response to U.S. and European regulators' concerns about the anti-competitive impact of the proposed MCI/WorldCom merger on the Internet market, MCI announced plans to sell a portion of its MCIinternet assets to Cable and Wireless for $625 million. Does this sale represent a complete divestiture of MCIinternet, the world's largest Internet network provider?

We can answer this question by comparing the MCIinternet sale to Cable and Wireless with the 1996 MFS (now a part of WorldCom) purchase of UUNet, the world's second largest Internet network provider. Two years ago, MFS purchased UUNET for $2.2 billion. Why would MCI sell off its Internet business today for only one-fourth the purchase price paid two years ago by MFS for a smaller Internet company? The answer is that MCI is not divesting its key Internet resources.

This fact can be demonstrated in two ways; first, by comparing the price to revenue valuation multiple for the two deals; and second, by comparing the assets that are included in the two deals.

Price/Revenue Multiple of MCIinternet Deal is One-Fourth the Value of the UUNet Deal

A price to revenue valuation method is a standard analytic tool that investment bankers use to calculate the value of an asset. The price to revenue multiple for the 1996 MFS purchase of UUNet is 11.2. The MCI sale of Cable and Wireless yields a price to revenue multiple of only 2.8, which is only one-fourth the value of the UUNet deal.

Valuation of UUNet and MCIinternet Deals		
	1996 UUNet Deal	**1998 MCIinternet Deal**
Purchase Price	$2.24 billion*	$625 million
Internet Revenue	$200.1 million	$220 million
Price/Revenue Multiple	11.2	2.8

Source: UUNet Second Quarter, 1996 Financial Report; MFS SEC Form 10-K, 3/31/97; MCI SEC Form 8-K, 5/29/98. (The Internet revenue figures were annualized.)
*UUNet price = $2.1 billion purchase price plus $.14 billion assumed liabilities

If the MCI divestiture were indeed a spin-off of its entire Internet operations, one would expect a multiple in the same range as the UUNet sale. Thus, applying the UUNet 11.2 multiple to the MCI assets would yield a $2.5 billion sale price for MCIinternet. It should be noted that this valuation factor does not include any adjustments for changes since 1996 -- a lifetime in Internet economics. Adjustments might be appropriate because 1) the scale of the MCIinternet customer base and infrastructure has greater value than the UUNet network; 2) Internet traffic has grown 600 percent over the past two years; and 3) the UUNet sale was two years ago, when Internet earnings projections were less secure.

MCIinternet Sale Does Not Include Many Key Internet Assets

The $625 MCIinternet purchase price is so low because the divestiture is incomplete. MCI is not selling Cable and Wireless all of its Internet assets. This can be seen by comparing the description of Internet assets included in the MCIinternet and the UUNet deals, as reported to shareholders in company filings with the Securities and Exchange Commission (SEC).[1] These filings are required by law to disclose accurate information so that shareholders can accurately value companies.

The MCIinternet sale includes MCIinternet's physical assets and 1,300 ISP customers. However, the sale does <u>not</u> include residential and commercial customers, applications services, consulting services, Web server hosting, integration services, client software, network integration, training services, comprehensive range of Internet access options, intranet services, all sales and marketing employees, all customer service employees, all technical and engineering employees, all administrative employees, operations support systems, network operations centers, collocation facilities, and research and development. The table on the next page summarizes this list.

Conclusion

Only a complete divestiture of MCIinternet will resolve the Internet anti-competitive issues related to this merger, thereby effecting a permanent, stable transfer of customers. Only a complete divestiture will preserve today's market structure in which no one backbone network provider can set the terms and price of interconnection on the Internet through its dominant control of the customer base.

As we have demonstrated, the $625 million MCIinternet sale to Cable and Wireless is not a complete divestiture of MCI's Internet assets. First, its price/revenue multiple of 2.8 is far too low to represent a complete divestiture, as can be seen by comparing it to the 11.2 multiple paid two years earlier for UUNet. Second, of the 22 Internet assets included in the UUNet sale, only two (physical assets and ISP customers) were included in the MCIinternet sale. Thus, the $625 million MCIinternet deal fails the market test to remedy anti-competitive concerns.

---

[1] MCI Communications Corporation, SEC Form 8-K, May 29, 1998 and MFS Communications Company, SEC Form 10-K, March 31, 1997

Internet Assets Sold in UUNet and MCIinternet Deals		
Items Purchased	**UUNET**	**MCIinternet**
Physical assets	Yes	Yes
Comprehensive range of Internet access options	Yes	No
Internet applications services	Yes	No
Internet consulting services	Yes	No
Web server hosting	Yes	No
Integration services	Yes	No
Client software	Yes	No
Security products	Yes	No
Network integration	Yes	No
Training services	Yes	No
Residential customers (dial-up)	Yes	No
Commercial customers (dial-up and dedicated)	Yes	No
ISP Customers	Yes	Yes
Intranet services	Yes	No
All sales & marketing employees	Yes	No
All customer service employees	Yes	No
All technical & engineering employees	Yes	No
All administrative employees	Yes	No
Operations support systems	Yes	No (right to use)
Network operations centers	Yes	No
Collocation facilities	Yes	No (right to use)
Research and Development	Yes	No
Source: MCI Communications Corporation, SEC Form 8-K, May 29, 1998 and MFS Communications Company, SEC Form 10-K, March 31, 1997.		

June 9, 1998